

***Testimony of***

**STEVE RUTLEDGE, President**

**Farmers Mutual Hail Insurance Company of Iowa**

**On behalf of**

**CROP INSURANCE RESEARCH BUREAU, INC.**

**(CIRB)**

**United States House of Representatives**

**Committee on Agriculture**

**Subcommittee on General Farm Commodities**

**And Risk Management**

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Chairman Boswell, Ranking Member Moran, Members of the Committee, good morning. My name is Steve Rutledge. I am President and CEO of Farmers Mutual Hail Insurance Company of Iowa located in West Des Moines, IA. Farmers Mutual Hail has been in the business of offering risk management tools to the agricultural producers of the Mid-West for over 117 years, and today writes both private hail insurance and federally reinsured Multiple Peril coverage in 15 states. Additionally, I am the past Chairman of the Crop Insurance Research Bureau ("CIRB"), headquartered in Washington, D.C., and currently serve on the Executive Committee of that organization. CIRB is a national trade association composed of insurance companies that write federal crop insurance as well as private crop-hail insurance, commercial reinsurance companies, reinsurance brokers, and other organizations with an interest in the crop insurance program. A list of CIRB members is attached to my testimony. I appear before you today on behalf of CIRB, and thank you for the opportunity to offer testimony to the Committee on its behalf.

By way of background, CIRB members are, for the most part, small to medium-sized crop insurance companies. Our members write in nearly every state and provide billions of dollars in federally reinsured multiple peril crop insurance protection, or "MPCI." These insurance company members bring to the federal partnership a wealth of knowledge about the MPCI program and are committed to providing risk management support to the farmers and ranchers of this nation. Our membership also includes some of the most significant members of the private commercial reinsurance community in terms of their involvement in the crop insurance program. These members are vital to both crop hail and federal crop insurance, and we are proud to be a leading voice within the industry for the reinsurance community.

In my testimony I will attempt to illustrate the importance of the public-private partnership in the delivery of the federal crop insurance program, the necessity of continued support by private reinsurance companies in managing the program risk of Approved Insurance Providers or "AIPs," and finally the expected impact of recent changes to the federal crop insurance program on those segments of the industry, as well as to the agents who comprise a significant part of the delivery system.

## PERSPECTIVE

Much has changed since we last appeared before this Committee in 2007. The spike in commodity prices that occurred during the 2008 reinsurance year put the crop insurance program on tenuous grounds, with regulators becoming concerned that companies and agents were too profitable. Although both initially benefited from the increase in prices, the landscape has since changed. Crop prices have declined significantly, as have the rates charged to producers. The largest reductions in rates took effect in the 2010 reinsurance year, with additional cuts expected for the 2011 reinsurance year. This combination of price and rate decline will cause the Federal Crop Insurance Program premium to shrink from over \$9.8 billion in 2008 to an estimated \$7.0 to \$7.5 billion in 2011. The savings in A & O paid to AIPs due to this decline has contributed greatly to the savings achieved by RMA.

In this context, the industry took a substantial financial hit in the 2008 Farm Bill, with cuts totaling \$6 billion over 10 years. While some of these cuts came in the form of timing shifts, their impact cannot be underestimated. Furthermore, as the industry worked to absorb and adjust to these reductions, the U.S. Department of Agriculture embarked on a renegotiation of the Standard Reinsurance Agreement, or "SRA." While I will go into more detail on that in a moment, the end result of the renegotiation was another \$6 billion cut to the program that in part sought to address "yesterday's" problem.

The reduction in funding does not mean that the crop insurance program has become less complex. Just the opposite is true. Regulatory compliance requirements of the program, especially with the advent of the 2011 SRA, have intensified thereby compelling AIPs to spend more of the fewer dollars available to assure conformity with the program. The financial cuts and added compliance costs come at a time when the industry is struggling to manage many large and complicated system changes, while at the same time managing an ever increasing number of pilot programs, plans, coverage levels, and additional training requirements. The additive nature of these stresses combine to put the industry at risk.

It is important to emphasize that the federal crop insurance program as it exists today is the cornerstone of our agricultural safety net and the envy of the rest of the world as other nations attempt to replicate our success. The clearest illustration of the value of the program is that roughly 80% of our nation's farmers recognize the importance of the program by investing premium dollars in MPCI products. Subtract so called "hobby farms" and it is not inaccurate to say that virtually every farmer in this country buys MPCI. Crop insurance has played a vital role in maintaining the availability of credit for farmers who need ever larger loans to cover rapidly escalating input costs. Ag lenders have made it clear to their borrowers that without this income security, credit will not be forthcoming. This was true before the credit crunch; it is even more focused since the onset of the current crisis.

The federal crop insurance program currently provides a level of security and flexibility for American agriculture that likely exceeds the expectations when the public-private partnership was first legislated into existence 30 years ago. The program, which initially offered only yield

protection for mostly row crops, has expanded into a national insurance system that allows farmers and ranchers to manage both weather and price risks. Our success has been rooted in significant government investment and a robust private sector delivery and risk-sharing system. The products offered by crop insurance have proliferated so that companies and agents can tailor coverage to the individual farmer's needs. Additionally, crop insurance providers have introduced greater efficiency into the program, relying on greater volumes to repay costs and ultimately dipping into profits to preserve a viable system.

Today, in addition to providing protection for yield losses, crop insurance companies also offer price protection with the revenue plans of coverage that comprise about 80% of the total insurance sold. The majority of these revenue products were initially developed by the private sector. This type of insurance coverage not only provides considerable protection for producers, but also provides yet another level of security for lenders, thus increasing the ability of farmers to access the operating loans necessary to get crops in the ground. Today's farmers are excellent business managers and everyday more and more recognize the value of proactive marketing. Revenue insurance plans have also greatly increased the motivation and flexibility of producers to develop professional plans to market their crops by reducing the risk involved in this process to a much more manageable level. Clearly, the contribution to the growth and improvement of today's crop insurance program by the private companies who cooperate with government to deliver the coverage has been substantial.

We also believe that access to commercial reinsurance is a critical component of this public-private partnership. From the perspective of our members, private reinsurance provides an invaluable benefit to the program by enhancing the capacity of AIPs. Without this benefit, less well-capitalized companies could be forced to sharply reduce their volumes of business in order to maintain adequate levels of capitalization relative to premium. The availability of commercial reinsurance also enhances competition, reducing the risk to the government that could arise if only a few insurers were able and willing to deliver the program. Not only does commercial reinsurance make it possible for new companies to enter the market, but also it allows for AIPs to gain experience in new markets without risking significant portions of their own capital. Against this backdrop, it is counterintuitive that USDA has chosen, once again, to transfer more risk to the taxpayers and away from AIPs and their reinsurers in the new SRA.

We believe that a strong, viable crop insurance program is critical to the future of American agriculture. I doubt that our younger farmers who have struggled to acquire the resources necessary to begin a successful operation could even contemplate a career in farming without the federal crop insurance program, and I believe we all agree that we need more youth in agriculture. Simply put, the value of the federal crop insurance program to American agriculture cannot be overstated.

## 2011 STANDARD REINSURANCE AGREEMENT

The 2008 Farm Bill authorized USDA, through the Risk Management Agency, to renegotiate the Standard Reinsurance Agreement for the 2011 reinsurance year, which began on July 1. We have just completed that task, and all 16 Approved Insurance Providers have signed the 2011 SRA. While we appreciate the willingness of RMA to consider the views of the industry throughout the months-long process, we remain concerned about the implications of the final product for the future of crop insurance.

Generally, we believe that the roughly \$6 billion in cuts to the program will jeopardize the viability of several AIPs and agents in their ability to provide critical risk management support to producers. In addition, we were also troubled during the process by the introduction of various changes in the three different drafts of the agreement that did not appear to result from the negotiations. But, to paraphrase Secretary of State Hillary Clinton, "how do you get tough with your regulator?"

For example, we question the provision that was included for the first time in the third draft of the SRA that penalized AIPs who sued the Department of Agriculture, even if the suit was not filed directly by the AIP. While the provision was converted into a covenant not to sue through negotiation, we question the late addition of the issue and the insistence that agents be included in the covenant, especially given that agents are not a party to the SRA contract.

We also note that the issue of capping compensation to agents was not introduced until the second draft and even more worrisome, the introduction of an even more stringent "hard cap" on commissions was not included until the third draft, which was presented to the industry as "final" thus affording industry no opportunity to discuss this issue. We believe that had there been genuine concern regarding company insolvency, which seems to relate to the 2002 year, this should have been addressed in the 2005 SRA or in an earlier draft of the 2011 rewrite.

We are also disappointed that RMA chose not to phase in the changes to the gain/loss formula in the Group 1 states. Doing so would have provided AIPs with the financial flexibility and additional time needed to geographically expand their operations, a strategy which RMA seems to provide incentive for in the new SRA. Further, since the rationale for reducing potential underwriting gains in Group 1 states was predicated partly on the premise that these states were more prone to infrequent but very catastrophic events, the decision to greatly increase risk to AIPs in these states compared to all others seems a bit contradictory and also disappointing. RMA's approach instead hinders the opportunity for AIPs to adjust their business plans to account for the changes in the new SRA, in particular the likelihood that their commercial reinsurance costs will increase for business written in Group 1 states due to the reduced profit margins and increased risk.

Along those lines and given our substantial reinsurance membership, we also emphasize that this SRA could have significant ramifications for the private reinsurance market as it shifts risk away from the market and to the government. For instance, under the new SRA, quota share



reinsurers may see reduced profit-sharing opportunities and will therefore have less of an incentive to participate in the market. The reinsurance community is well prepared to manage risk within crop insurance but with this SRA, as previously mentioned, RMA is effectively removing risk from a market that has worked successfully for years and instead placing a burden on the American taxpayer.

## **MOVING FORWARD**

The 2008 Farm Bill and the 2011 SRA have exacted their toll on crop insurance. The industry is now holding its breath as Congress begins to consider the 2012 Farm Bill. As we start that process, we must emphasize that crop insurance has already borne the brunt of the fiscal pressures facing Washington multiple times. We have found ourselves under the scalpel, and we fear that further mandated reductions that may be considered in the 2012 legislation will place the program in an even more precarious position.

We remain confident that a viable farm safety net starts and ends with a successful crop insurance program. We understand that a number of proposals that affect crop insurance have been floated for the Farm Bill rewrite. We will review each of them carefully. From the recent hearings held here in Washington and across the country, however, one key area of agreement is obvious: the federal crop insurance program is an essential tool for American farmers.

The crop insurance industry has continued to perform reasonably well over the past several years. To that extent, the industry may well be a victim of its own success. In reality, though, it has been the unprecedented run of profitable years, occasioned by generally favorable weather patterns, that has allowed the industry to survive without a major upheaval of the marketplace. Nonetheless, many AIPs were forced to make operational changes during this period, including selling to larger, more well-capitalized companies in order to secure their survival. Since the last SRA went into effect in 2005, less than one third of the AIPs have maintained their original ownership and organizational structure.

With the changes that I have discussed, however, USDA has gone too far. Virtually every AIP has had discussions regarding new sales, mergers, or acquisitions. In addition, many agents have already expressed the desire to move some of their work back to the AIPs or are attempting to negotiate the outright sale of their agencies. The new reality is that AIPs and agents seriously question the future in the crop insurance business and many are choosing to search for a way out. Jobs will be lost, service to producers will suffer, and the face of the industry will change. Those who remain simply hope that their faith in the eventual recognition of the value of the private sector in crop insurance has not been misplaced.

We look forward to working with you in the coming months and years as you continue to fashion our farm policy. We thank you for the opportunity to testify, and we stand ready to answer any questions you may have.

## **EXHIBIT A**

### **CIRB FULL MEMBERS**

- ADM Crop Risk Services
- American Agricultural Insurance Company
  - Arkansas Farm Bureau
  - Idaho Farm Bureau Insurance
  - Indiana Farm Bureau Insurance
  - North Carolina Farm Bureau Insurance
  - Oklahoma Farm Bureau Insurance Company
  - Virginia Farm Bureau Mutual Insurance Company
- ARMtech Insurance Services
- BMS Intermediaries, Inc.
- COUNTRY Insurance & Financial Services
- Farmers Mutual Hail Insurance Company of Iowa
- Guy Carpenter & Company, LLC
- James River Insurance Company
- Partner Re Insurance Company of the U.S.
- Totsch Enterprises
- Western Agricultural Insurance Company

### **CIRB ASSOCIATE MEMBERS**

- Aon Re
- Endurance Reinsurance Corporation of America
- MAPFRE Re Insurance Corporation
- Max Re Europe Limited
- Munich Reinsurance Company
- National Association of Mutual Insurance Companies
- State Farm Fire & Casualty Insurance Company
- Sirius International
- Swiss Reinsurance



## **STEVEN C. RUTLEDGE**

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**Steven C. Rutledge** started his career as an agent and crop hail adjuster for Farmers Mutual Hail Insurance Company of Iowa before joining the company full-time in 1972 as a field supervisor in Wisconsin. In that position, he was responsible for the agents' production and the adjusters' claims work in his territory.

In 1983, Steve started down a new career path with the company when he was transferred to the Reinsurance Department in the Home Office. He would spend the next five years learning the ropes and assisting in several capacities. During this time, he was also appointed to the company's Board of Directors. In 1988, he was named assistant vice president and assistant manager of the department.

Steve continued in this position until 1993 when he was named senior vice president and manager of the Reinsurance Department. Soon after, he was also appointed to the company's executive and investment committees. During Steve's tenure as senior vice president and manager of the Reinsurance Department he designed and initiated their original automation system. Also, Steve was responsible not only for the incoming reinsurance business but also for the purchase of reinsurance to protect FMH's book of crop insurance. Steve continues to be involved in purchasing reinsurance at the present time.

In his capacity as a board member, he played an instrumental role, both within the company and with the respective insurance departments, during the acquisition of Farmers Union Co-operative of Omaha, Nebraska, and the merger of Wheat Growers Mutual of Cimarron, Kansas. He also played a leadership role in the organization and eventual sale of the subsidiary Burrige Storey & Company, Ltd. of Chicago, Illinois.

In 1998, Steve was asked once again to change his career direction. This time he would lay the groundwork for FMH's entrance into the multi-peril business. Building the department from scratch, he oversaw every aspect. It has grown from nothing to the number 7 position in the industry. The Multi-Peril Department has become not only a viable part of the company, but also has become well respected in the industry.

At the start of 2002, Steve took over leadership of Farmers Mutual Hail as president and chief executive officer. He has laid a solid foundation of experience over the past 30 years, which has included positions in all three of Farmers Mutual Hail's major departments - Crop Hail, Multi-Peril, and Reinsurance.

During his career, Steve has served on several industry boards. At the present time he serves on the Boards of the National Crop Insurance Service as vice chairman and the Crop Insurance Research Bureau where he is the past chairman. He was also chosen to serve on the National Task Force on Corporate Governance by the National Association of Mutual Insurance Companies. As a hobby, Steve has traded commodity futures and options for over 20 years, gaining a general understanding of the risk management uses of these derivatives. Steve has been a frequent speaker at various crop and reinsurance conferences and conventions, including speaking on behalf of the U.S. crop insurance industry at the request of the USDA in Poland at an International Agriculture Symposium held in 2001. Steve also coauthored a chapter on leadership techniques for a book published in 2002.



Committee on Agriculture  
U.S. House of Representatives  
Required Witness Disclosure Form

House Rules\* require nongovernmental witnesses to disclose the amount and source of Federal grants received since October 1, 2007.

Name: \_\_\_\_\_

Address: \_\_\_\_\_

Telephone: \_\_\_\_\_

Organization you represent (if any): \_\_\_\_\_

1. Please list any federal grants or contracts (including subgrants and subcontracts) you have received since October 1, 2007, as well as the source and the amount of each grant or contract. House Rules do **NOT** require disclosure of federal payments to individuals, such as Social Security or Medicare benefits, farm program payments, or assistance to agricultural producers:

Source: \_\_\_\_\_ Amount: \_\_\_\_\_

Source: \_\_\_\_\_ Amount: \_\_\_\_\_

2. If you are appearing on behalf of an organization, please list any federal grants or contracts (including subgrants and subcontracts) the organization has received since October 1, 2007, as well as the source and the amount of each grant or contract:

Source: \_\_\_\_\_ Amount: \_\_\_\_\_

Source: \_\_\_\_\_ Amount: \_\_\_\_\_

Please check here if this form is NOT applicable to you: \_\_\_\_\_

Signature:  \_\_\_\_\_

\* Rule XI, clause 2(g)(4) of the U.S. House of Representatives provides: *Each committee shall, to the greatest extent practicable, require witnesses who appear before it to submit in advance written statements of proposed testimony and to limit their initial presentations to the committee to brief summaries thereof. In the case of a witness appearing in a nongovernmental capacity, a written statement of proposed testimony shall include a curriculum vitae and a disclosure of the amount and source (by agency and program) of each Federal grant (or subgrant thereof) or contract (or subcontract thereof) received during the current fiscal year or either of the two previous fiscal years by the witness or by any entity represented by the witness.*

PLEASE ATTACH DISCLOSURE FORM TO EACH COPY OF TESTIMONY.

